

CAI CC

-70c53

Re Report on Perf. MS

Government
Publications

COMMENTS ON THE GOVERNMENT

WHITE PAPER ON TAX REFORM

A brief prepared by the Canada Council



CAI cc

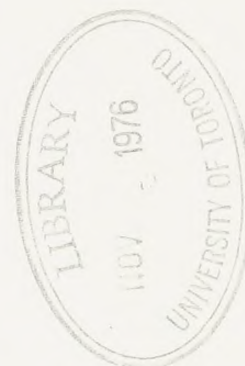
-70053

Government
Publications

COMMENTS ON THE GOVERNMENT

WHITE PAPER ON TAX REFORM

A brief prepared by the Canada Council



JUNE 1970

THE CANADA COUNCIL
COMMENTS ON THE GOVERNMENT
WHITE PAPER ON TAX REFORM

TABLE OF CONTENTS

| | <u>PAGE</u> |
|--|-------------|
| Introduction | 1 |
| The taxing of grants and scholarships | 3 |
| Income averaging | 6 |
| Deductibility of artists' expenses | 9 |
| Tuition fees | 10 |
| Charitable donations | 11 |
| Capital gains taxation | 15 |
| Purchases of works of art | 18 |
| Special income tax allowance for capital expenditures on the arts | 19 |
| Taxing the investment income of non-profit organizations | 21 |
| Special cases | 22 |
| Appendix A - A comparison of amounts of income tax payable on grants and awards | 23 |
| Summary of observations and recommendations | 24 |



Digitized by the Internet Archive
in 2022 with funding from
University of Toronto

<https://archive.org/details/31761114654882>

THE CANADA COUNCIL

COMMENTS ON THE GOVERNMENT WHITE PAPER ON TAX REFORM

INTRODUCTION

1. In December, 1968, following publication of the Report of the Royal Commission on Taxation, the Canada Council submitted to the Government a brief entitled Taxation and the Arts, which dealt with the fiscal circumstances of artists and arts organizations and suggested ways of lightening what the Council felt was an excessive burden. The brief in question was based on a study made by a group of tax experts in consultation with representatives of the artistic community.

2. Having studied the proposals for tax reform made public on November 7, 1969, by the federal Minister of Finance, the Council feels called upon once more to express its views. The earlier brief dealt only with artists and arts organizations, but the intention here is to include scholars and research workers in the social sciences and humanities - fields which are of equal interest in the Council's terms of reference. It is important to stress that no special treatment is sought for taxpayers in these groups, and that therefore some of the recommendations that follow would, if implemented, affect other sectors of the population.

3. We intend to limit our comments to those measures set forth in the White Paper that would affect income taxes. Our views on other federal and provincial levies remain as expressed in our 1968 brief.

4. In view of the frequent use of the term "charitable" that will be necessary, we should explain that we use it in its generally accepted legal sense, which is much broader than the usual meaning.

In our view, support of the arts by individuals and corporations more often involves the discharge of important social obligations and the pursuit of enlightened self-interest than an act of "charity" in the popular and rather patronizing sense of the word.

5. The word "arts" is used here in its widest sense, as defined in the Canada Council Act, and the word "artist" is not to be taken in the common, more limited sense of someone practising the visual arts.

6. Our recommendations are of two kinds. Some seek to obtain treatment for artists that will be comparable with that afforded other classes of taxpayer; others indicate what could be done to stimulate progress in the arts, social sciences and humanities, to create a climate in Canada more favourable to their advancement and to attain a higher level of public participation.

7. If the federal government were to accept the recommendations in this memorandum, it is to be hoped that other tax-levying bodies in Canada could be equally persuaded. We would once again point out that the arts, social sciences and humanities, like other special areas of activity, stand in need of tax incentives to motivate both individuals and organizations.

THE TAXING OF GRANTS AND SCHOLARSHIPS

8. The White Paper includes a proposal that income tax be levied on bursaries, scholarships and research grants which have hitherto been exempt.
9. The Council has no objection to the idea of an all-embracing tax on incomes that would include those of artists, students, university professors and researchers. However, such an approach ought to imply tax deductibility for all justified expenditures incurred in the course of work for which a bursary or grant has been awarded, such as tuition, books, professional equipment and travelling expenses.
10. The taxing of grants and scholarships will have the following consequences:
 - a) The Canada Council will be compelled, in some instances, to increase the amount of its assistance in order to enable the recipients to maintain a reasonable standard of living. In view of the Council's budgetary limitations, it will probably have to reduce considerably the number of awards made.
 - b) Under tax treaties currently in force, Canada Council assistance is tax-exempt in most countries including the United States, the United Kingdom and France. Although implementation of the White Paper's proposals would raise the matter of a review of the tax treaties Canada has with certain foreign countries, it is reasonable to wonder whether this special circumstance will be taken into account. If the relevant provisions are unchanged after implementation, more award recipients may wish to leave Canada in order to protect their awards from taxation. But even if new tax agreements are signed, the fact remains that scholarships and bursaries are currently exempt from taxation

in such countries as the United States.

In recent years, the Canada Council has been fairly successful in its efforts to persuade more doctoral candidates to prepare their theses at Canadian universities, instead of going abroad. The taxing of doctoral fellowships will doubtless present an obstacle to this trend, unless appropriate provision is made.

Implementation of the White Paper proposals would also encourage more artists to use the financial assistance they receive from the Canada Council to go and work outside Canada. This situation could doubtless confront the Council with the difficult duty of differentiating between applicants who prefer to work or study abroad and those who stay in Canada and offering larger awards to the latter.

- c) The White Paper describes post-graduate students and researchers as "in effect, professional workers". It seems reasonable to suppose that artists would fall into the same category.

We assume, therefore, that scholarships and bursaries, etc., would be treated on the same basis as professional fees and that deduction of income tax at the source would not be required. The Council further assumes that it would not be called upon to complete T4 slips or other similar forms listing amounts awarded under its various programs.

If grants were regarded as professional income, an important corollary is that the recipient would be entitled to deduct from his income all reasonable expenses incurred in earning it. In most cases, the deductible expenses would be considerably in excess of the annual maximum of \$150 suggested for wage and salary earners.

11. The Council wonders whether such awards as the Molson Prizes "for outstanding contributions to the artistic and intellectual life of Canada" would be taxable or not. Since the White Paper suggests no changes in existing tax provisions respecting fortuitous increases in wealth, the Council feels that clarification is necessary.

INCOME AVERAGING

12. The Government has recognized the need for income averaging provisions, but the Council would like to see a more detailed statement of its proposals in this regard. According to the White Paper, married persons ceasing to be claimed as dependents by their spouses and those under 25 years of age could only use an unbroken series of years to establish an annual average. This 25-year threshold apparently does not take into account the many artists - particularly musicians - who achieve success at an early age and later resume their studies. A number of young academics are in the same situation: After a period of paid employment, usually as teachers, they may decide to undertake higher studies. The Council therefore recommends that instead of setting an arbitrary 25-year age threshold, the right to average income be extended to all taxpayers except students who have never interrupted their studies.

13. The suggested averaging formula seems to have been designed around a taxpayer whose income in a given year is considerably greater than in preceding years. Unfortunately, neither its objectives nor its effects seem to include the equalization of the tax burden on individuals whose total incomes over a number of years are equal, but differently distributed over time.

14. Existing averaging provisions grant such equality to farmers and fishermen, and the new proposals leave them intact. Many artists experience the same fluctuations in income as farmers and fishermen and should therefore, presumably, enjoy the same privileges.

15. This could be done by extending the present provisions to cover artists and if necessary even altering them to reflect a reasonable rate of income increase. But giving all taxpayers the right to average their income would be better than broadening the scope of a preferential

system.

16. Two measures could be adopted in order to achieve this aim; the first would be a provision respecting the right to income averaging, and the second would set out the mathematical procedure to be followed. The right could be granted to any taxpayer whose income in a particular year was $33 \frac{1}{3}\%$ higher, or $66 \frac{2}{3}\%$ lower, than the arithmetical average of his income in the preceding four years.

17. The formula could be as follows:

1. The central computer used by the Department of National Revenue could make the averaging calculations annually, by means of the data stored in its memory bank, and determine the most advantageous approach for each taxpayer.
2. The calculation would be based on the income figures for the tax year in question and the four years preceding it. An amount - say, 10% - would be deducted from the five-year total of income to reflect the average increase in incomes generally. The resulting amount would be used to establish the arithmetical average, which in turn would be used to recalculate contributions for each year at the rate applicable to each. The total of these contributions would be added to the tax on the general average increase, levied at the rates applicable to the excess over the arithmetical average. This would give the maximum contribution, from which would be deducted the taxes actually paid on income in the preceding four years (or a shorter period, pending full implementation of the arrangement). The amount obtained would be compared with the amount payable for the fifth year taken in isolation, and the taxpayer would be charged the lesser of the two.

18. This formula avoids the disadvantages inherent in the one suggested in the White Paper: the need to keep records, and the need to make a choice that could sometimes be very difficult or unprofitable for the taxpayer. Years that had been used to establish an arithmetical average could later be used without difficulty in the establishment of another. Any subsequent amendments to the Act or changes in the taxpayer's status would have no effect on averaging calculations.

19. A clearer definition of "irregular or short-term incomes" and "extra amounts" would be welcome. The first expression might be interpreted in any one of three ways: an individual's earning capacity can be limited to a certain number of years, as in the case of, say, a ballet dancer or a hockey player; secondly, income may fluctuate considerably from one year to another, as it does for such people as painters or professional golfers; thirdly, an individual may receive an unusually large lump sum in a particular year - a writer, for example.

20. With this in mind, the Council believes that the provision for the payment of "extra amounts" into a registered retirement savings plan could apply to a great many artists.

DEDUCTIBILITY OF ARTISTS' EXPENSES

21. The White Paper proposes that wage-earners be allowed to deduct from their income certain expenses incurred in earning it; this is to be a uniform deduction of 3% of gross income up to a maximum of \$150. Such a move would alleviate the present discrimination against wage-earners in relation to self-employed persons, who are allowed full deductibility.

22. However, the Council believes that the proposed amendment does not go far enough and would still discriminate against wage-earners whose expenses exceed \$150. This group includes many employed artists who must meet professional expenses out of their own pockets for such things as clothing, travel, musical instruments or arts materials. It also includes established artists who, while working independently as artists, derive their main income from salaried employment. Because they are classified as wage-earners, they are allowed to deduct only a portion of the expenses incurred in their artistic work, while often deriving only a modest income from this work.

23. The Council therefore believes that wage-earners should be allowed full deduction of their actual professional expenses, and does not think such a provision would involve any major administrative problems.

TUITION FEES

24. The White Paper makes no mention of changes in the rules respecting deductibility of tuition fees. Should we assume that section 11 (1) (qc) of the Income Tax Act is to remain in force?

25. The section in question currently provides that tuition fees are deductible only where a student is attending a university or college at the post-secondary level, a school run by or for the federal government or a municipal or provincial government, a course leading to a certificate in secondary education or an educational institution approved by the Minister of Manpower and Immigration.

26. According to this definition, artists and art students cannot deduct their tuition fees, since art schools and private teachers are not included in any of the four broad categories described in the last paragraph.

27. The Council believes that the Act should be broadened to provide for unlimited deductibility for sums spent by a student in acquiring knowledge of his art and paid as tuition fees to technical or occupational schools or private teachers; failing this, the Department of Finance should, we think, endeavour to persuade the Department of Manpower and Immigration to approve such schools, as well as private teachers, under section 11 (1) (qc) (IV).

CHARITABLE DONATIONS

28. The White Paper proposes no change in current provisions with respect to the deductibility of charitable donations. In the past, the Council has recommended that the limit on charitable-donation deductions be raised to 20%, with any excess being carried over and deducted during the ensuing five-year period; that donations to non-government-owned museums and galleries be made fully deductible; and that gifts in kind and contributions of future interests in works of art made to charitable organizations be fully deductible also. However, the White Paper now contains proposals which, if implemented, might have a serious effect on donations that may be made in the future to cultural or artistic institutions. The proposals in question are those by which the maximum marginal rate of individual income tax would be reduced to 50% and capital gains would be included in income.

29. The Council recommends that capital gains calculated at the time donations of works of art are made be exempt from taxation. The Council believes that failure to provide this exemption will have a discouraging effect on the incentive to donate, particularly as the well-to-do will perhaps be less inclined to give after the maximum marginal rate of individual income tax is reduced to 50%.

30. Since the Government has not abandoned the principle of using legislation as an incentive, and since the Council believes that cultural and artistic activities are in need of stimulation, it is recommended that existing provisions respecting the deductibility of charitable donations be amended so as to allow individuals and corporations to deduct up to a limit of 20%. The Council further recommends the inclusion of a provision whereby taxpayers could carry over any excess donations in one year for the ensuing five. A taxpayer electing to average his income would be entitled to a maximum deduction of 20% of each year's average. The Council believes that the present federal limitation of 10% on charitable donations is too restrictive and hinders development of the arts in Canada.

31. Most arts organizations prefer to appeal for large donations in support of specific projects or acquisitions to a few donors whose interest in the field in question may be assumed. They are often informed that the prospective donors have already reached the 10% limit and that anything additional would not be deductible. If the donation sought is in excess of the allowable deduction, it is less likely to be made.

32. Occasionally, a collection will be donated to an art museum piece by piece, in order not to exceed the annual limit. This cannot be done, however, in the case of a single work of great value. In order to facilitate and encourage the donation of works in this latter category, and to stimulate the generosity of those who might contribute to specific individual artistic endeavours, the Council recommends that taxpayers be allowed to deduct up to the 20% limit for donations in any one year, and to carry over the excess for deduction during the ensuing five-year period.

33. There seems to be a popular belief that charitable-donation deductibility applies mainly, if not exclusively, to donations made to organizations caring for the socially disadvantaged, as the word "charitable", interpreted in its narrowest sense, suggests. The Council requests elsewhere that this word be more clearly defined. A few important arts organizations are prevented from enjoying the status of "charitable" institutions because of the special nature of their activities (e.g. cultural publications). The Council believes they should enjoy the same advantages as the others.

34. The matter of gifts to museums or galleries raises a serious problem. The National Museums of Canada in Ottawa are a Crown corporation. Gifts to them,

are therefore not covered by the usual 10% limit on charitable donations laid down by the federal Income Tax Act. Recent legislation has extended the same privilege to museums and art galleries owned by provincial governments. Thus, taxpayers may deduct from their income the full value of gifts to Her Majesty in Right of Canada or of a province. However, this places galleries and museums that are not owned directly by the federal or a provincial government in an unfavourable position insofar as the acquisition of works of art is concerned. This category includes such major institutions as the Montreal Museum of Fine Arts and the Vancouver Art Gallery.

35. The Council certainly agrees that the enrichment of our national heritage warrants the 100% deductibility now allowed for contributions to museums or galleries owned by the federal and provincial governments. However, the Council believes that this provision should be extended to cover other institutions that serve the public in a similar way. One method of achieving this objective would be to form a National Arts Collection Trust, which would act as an agency of the Crown. The value of paintings and other works of art received by the Trust and turned over to an institution of the donor's choice would not be subject to the statutory limits on deductibility. However, were it not seen fit to establish such an agency, we would favour extending the deduction privilege now enjoyed by government-owned museums and galleries to non-governmental institutions serving the same purposes.

36. The Council recommends that gifts in kind valued at more than \$500 and made to an approved institution be fully deductible from the donor's taxable income, provided the donation is compatible with the recipient institution's objectives. The Council also recommends the establishment of equitable procedures to handle the evaluation of gifts in kind. It feels that the departmental practice prohibiting deduction of such gifts is no longer justified.

37. The Council recommends that contributions to charitable institutions

of future interests in works of art be deductible from the donor's taxable income. This would encourage private collectors to turn over works of art to museums for exhibition to the public. A formula could be arrived at for determining the value of life interests, on the basis of which the amount deductible at the time of the donation could be calculated. The donor could thus retain life-time enjoyment of the work in question, and would have the immediate benefit of a deduction based on its current value.

38. The Council is convinced that the possibility of immediately deducting the value of future interests in works of art would be sufficient to encourage taxpayers to make such donations. Such a measure would be especially beneficial in Canada, where it is not unusual for major works of art to be lost to this country through inheritance. Were ownership of such works transferred to Canadian museums during the donor's lifetime, the number of such unfortunate losses would be reduced.

CAPITAL GAINS TAXATION

39. The proposals to tax capital gains raise a few problems, and the Council wishes to draw attention to those aspects of the proposals that concern gifts and bequests of works of art, and their evaluation.

40. The Council has laid emphasis in the past on the need to evaluate works of art, especially with regard to gifts in kind. There is a great deal of uncertainty and confusion as to whether these are tax-deductible, because of the problems involved in evaluating them. These problems will doubtless disappear in the wake of the reform proposals, under which evaluation machinery will become a necessity. The Council is therefore delighted with this turn of events, but wishes to emphasize once again the importance of establishing an equitable evaluation procedure for cases where a market price is difficult to determine, or where the value quoted is not precise enough to answer the requirements of a specific situation. The Council believes it should not be too difficult to develop a satisfactory procedure, since expert opinion is available throughout Canada at the many artistic and cultural institutions and from commercial dealers. It is essential, of course, that those selected to make evaluations for taxation purposes not be subject to conflicts of interest. The Council therefore suggests that evaluations be made jointly by independent experts and by dealers in the articles in question. Then too the international market for works of art could serve as a useful means for establishing values of art objects. Recourse could also be had to the Canadian Art Dealers' Association, the Canadian equivalent of the American Art Dealers' Association, whose members have a great deal of experience and have been consulted occasionally by U.S. tax authorities with regard to the establishment of evaluation procedures.

41. The Council recommends that an evaluation agency be set up as soon as possible. The urgency results from the fact that gains realized before the introduction of the new system will not be subject to tax. Though taxpayers will not apparently be required to produce an inventory of their property valued at its declared cost, many will doubtless wish to draw up such an inventory - listing estimated or appraised values - in order to avoid any future differences of opinion. An evaluation agency is thus becoming an urgent necessity.

42. Incidentally, the Council does not endorse the proposals relating to certain assets held for personal use or enjoyment. The Council believes in the need for certain provisions to deal with the taxation of earnings from the sale of such assets. However, the \$500 threshold is really too nominal, and the Council recommends that provisions be adopted to apply only in cases where a taxpayer owns an inventory of such goods worth more than, say, \$5,000. This would not only simplify accounting procedures for the average taxpayer, but would facilitate the administration of such measures by the government. Moreover, this would not discourage the accumulation of works of art by the average taxpayer.

43. The problem of evaluation will become much more serious in cases where individuals wish to donate works of art. To judge by the wording in the White Paper, there will be no problems in the evaluation for income tax purposes of property passing at death. In order to avoid double taxation, the Government proposes "that capital gains not be accrued at the time of death but that the person who inherits the assets be treated as if he had purchased them at their cost to the deceased". However, there remain the problems of evaluating property for inheritance taxes and death duties. Nor does it seem that the proposals are to relieve the tax burden on gifts inter vivos. If a work of art were transferred to a wife or child, the difference between the value of the work and its cost would be taxable as a capital gain. Except in the case of a gift to a wife, tax

would be payable on the excess over the allowable exemption. Gifts to charity would also be subject to capital gains tax. Such a measure would tend to discourage both donations of works of art and the collection of such works by individuals. The accumulation of art collections is important in the preservation and enrichment of our national artistic heritage, and the Council feels that tax measures should be designed to encourage it, rather than the opposite.

44. The Government believes that situations exist in which it would be unjust to levy a capital gains tax, and the Council therefore requests that very close attention be given to the matters raised here. The White Paper expresses the view that the realization of a substantial capital gain means a clear increase in a taxpayer's ability to pay. The Council does not believe that a person who donates a work of art to a charitable organization is thereby increasing his ability to pay. Such a donation doubtless contributes to the preservation of our national heritage, but it certainly should not lead to the levying of a capital gains tax.

45. Generally speaking, the White Paper makes hardly any distinction between capital gains and income, but it concedes that some capital gains are of a special nature. The Council feels that increases in the value of works of art fall into that category and should be exempted.

46. In the United States, although capital gains arising out of the sale of works of art are taxable, a donor may avoid taxation by making an unconditional gift of such works to a charitable organization.

PURCHASES OF WORKS OF ART

47. The Council recommends that there be no change in the present tax treatment accorded a work of art purchased by a business enterprise and displayed on its premises. However, the Council has concluded that in general, firms are not sufficiently well-informed of the tax advantages that can be derived from purchases of works of art for such purposes, and it accordingly recommends that these advantages be specified in the Income Tax Act, in the Regulations, or in explanatory material made available to taxpayers.

48. Generally speaking, a work of art purchased by a company for exhibition on its premises may be depreciated for income tax purposes at a maximum annual rate of 20%, on a reducing balance basis. However, the Taxation Division might contest a claim for a capital cost allowance on an unusually expensive work on the grounds that the cost of acquiring it was not incurred for the purpose of earning income. While consideration was given to a recommendation that firms be allowed to deduct 100% of the cost of a work of art in the year of purchase, the Council nevertheless concluded that the present provisions are sufficiently generous. When one considers that under present income tax legislation, a firm may claim capital cost allowances at various rates on its income-producing assets - 20% on typewriters, desks and other furniture, for example - it is difficult to give a rational justification for a speedier write-off for works of art, the latter being quite clearly less vital to business success than income-producing assets.

49. The Council also feels that sculptures, murals, architectural engravings and other structural artefacts should be eligible for depreciation for income tax purposes at 20% on a reducing balance basis. Under the present Income Tax Act, such works of art qualify for depreciation at the same rate as the building or other structure of which they form part, usually 5%.

SPECIAL INCOME TAX ALLOWANCE
FOR CAPITAL EXPENDITURES ON THE ARTS

50. Although Centennial and Expo '67 brought a considerable quickening of artistic activity and of public interest in the arts in this country, we nevertheless feel that Canada is lagging behind European countries and the United States with regard to what might be called our cultural infrastructure.

51. The Council believes that a swift and practical remedy for this state of affairs might be achieved by using tax legislation to stimulate a large-scale capital spending program for the arts. The Council therefore recommends that the Income Tax Act be amended to allow deduction from income of 150% of the amount of donations to approved capital expenditures on the arts.

52. The deduction would apply to purchases of materials for the production of new operas, plays and ballets as well as to the development of museums, opera houses, art galleries, cultural centres and similar institutions. Extensions of existing facilities would qualify, as would purchases of important works of art and other objects to furnish or adorn the institutions mentioned. In order to qualify, a project would have to be undertaken by a professional nonprofit organization, and, in the case of buildings, be approved by a government authority. Where both federal and provincial tax measures are involved, every effort should be made by advance consultation between the appropriate authorities to synchronize the incentives so that they are available on a similar or corresponding, though not necessarily identical, basis.

53. It may be argued that such a broad incentive can only be justified on a relatively temporary basis. Moreover, the deduction might take effect more quickly if made available for a limited period only. We therefore suggest that as an initial experiment the 150% deduction be introduced for a period of five years. The deduc-

tion should apply equally to lump-sum payments and to instalments paid over the period of application. In order to obtain the best possible results, the move should be announced a year in advance, or perhaps less, since some reasonable time is required for the planning of capital projects and the organization of public subscription campaigns.

54. With corporations taxed at slightly over 50%, and individuals at a maximum marginal rate of 50%, their potential contribution even with 150% deductibility remains considerable.

TAXING THE INVESTMENT INCOME
OF NON-PROFIT ORGANIZATIONS

55. The Government "does not propose to change the exempt status of the basic functions of (such organizations as) social, recreational and service clubs, societies and associations which operate on a non-profit basis". But it does propose to apply corporation tax to the investment income of such organizations, which are those covered by section 62 (1) (i) of the federal Income Tax Act.

56. Other organizations exempted from tax as charitable institutions, as well as pension funds, will be exempt from this new form of taxation. The Council believes it is very important to maintain at least existing levels of activity within cultural and artistic institutions, and it therefore hopes that the latter can continue to be regarded as "charitable" under the new provision. If not, donors may feel less inclined to donate, knowing that the income from their donations could be taxed in the hands of the recipient. Since the Government has indicated that the provisions of the Income Tax Act can continue to be used in order to stimulate particular sectors in the economy, the Council thinks it appropriate to request that the Act be amended in order clearly to include cultural and artistic institutions in the definition of "charitable".

57. In the past, cultural and artistic institutions such as museums and symphony orchestras have received gifts from charitable foundations. The Council believes that clarification is also required with respect to such foundations in order to ensure their being regarded as "charitable institutions". Should such foundations come under section 62 (1) (i), the effects on the distribution of their income could be disastrous. The Council believes they should be considered charitable, but if they fail to qualify as such for any reason, then the Council believes that at least gifts they make to charitable organizations should be fully deductible.

SPECIAL CASES

58. Among the objectives of tax reform are "a fair distribution of the tax burden based upon ability to pay; steady economic growth and continuing prosperity; ...and, finally, a system that can and will be used by the provinces as well as Canada".

59. The White Paper seems to regard the ability to contribute to the common weal in purely material terms, and ignores individuals' ability to make an abstract contribution that is more difficult to evaluate. For example, it suggests special treatment for the mineral industries, but makes no mention of contributions to Canada's cultural heritage. The White Paper states that the "government is aware of a continuing need to spur certain kinds of activities... Much of the government help now given to such development is through expenditures and credits. Tax laws, however, have long been used to provide incentives to such ventures, and the government believes they should continue to be so used in a number of specific ways..." Since "the present reform of the income tax should produce a reasonably stable system which can develop, but which need not be fundamentally revised for a considerable period", the Council urges that very special attention be given to the arts and to cultural activities in general. The Government should consider the drawing up of a general policy of encouragement to the arts and encourage taxpayers not only to preserve but to enrich our national cultural heritage.

APPENDIX A

A COMPARISON OF AMOUNTS OF INCOME TAX
PAYABLE ON GRANTS AND AWARDS

| | <u>Single taxpayer or married per- son whose spouse works</u> | <u>Married taxpayer with two children</u> |
|--|---|---|
| <u>Doctoral fellowships</u> | | |
| (A) Canada Council Assistance | \$4,500 | \$4,500 |
| Other income | <u>2,000</u> | <u>2,000</u> |
| | 6,500 | 6,500 |
| Tuition and books | <u>1,500</u> | <u>1,500</u> |
| Net income | <u>5,000</u> | <u>5,000</u> |
| Income tax now payable | nil | nil |
| Income tax proposed | <u>892</u> | <u>331</u> |
| Income tax increase | <u>892</u> | <u>331</u> |
| <u>Leave Fellowships</u> | | |
| (B) Canada Council Assistance | \$7,000 | \$7,000 |
| Portion of usual salary received during absence | <u>8,000</u> | <u>8,000</u> |
| | <u>15,000</u> | <u>15,000</u> |
| Income tax now payable | 1,657 | 1,215 |
| Income tax proposed | <u>4,372</u> | <u>3,590</u> |
| Income tax increase | <u>2,715</u> | <u>2,375</u> |

A SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. THE TAXING OF GRANTS AND SCHOLARSHIPS (p. 3)

The Council is not opposed to this measure, but it could necessitate an increase in the amounts of Council assistance and/or a reduction in the number of recipients. In view of the tax-exempt status of Council assistance in some foreign countries, recipients might feel encouraged to work or study abroad rather than in Canada.

2. INCOME AVERAGING (p. 6)

The Council feels that the averaging formula proposed in the White Paper is overly restrictive, and suggests its replacement with one designed to equalize the tax burden on those whose total incomes over a number of years are equal, but differently distributed over time.

3. DEDUCTIBILITY OF ARTISTS' EXPENSES (p. 9)

The White Paper places a limit of \$150 on those expenses which, it suggests, should be deductible from employment earnings. The Council feels that no limit should be imposed, and does not believe that the administrative problems that might arise constitute a major obstacle.

4. TUITION FEES (p. 10)

The White Paper does not mention relaxation of the present restrictions on the deduction of tuition fees. The Council recommends unlimited deductibility for sums spent by a student in acquiring knowledge of his art and paid as tuition fees to technical or vocational schools or private teachers.

5. CHARITABLE DONATIONS (p. 11)

The Council recommends that capital gains deemed to have resulted from donations of works of art be exempt from taxation; that the limit on charitable donation deductions be raised to 20% of taxable income; that taxpayers be permitted to carry over any excess for deduction over the ensuing five-year period; that donations to non-government-owned museums or galleries be made fully deductible; and that gifts in kind and contributions of future interests in works of art made to charitable organizations be fully deductible also.

6. CAPITAL GAINS TAXATION (p. 15)

The Council wishes to draw attention to the problems involved in the evaluation of works of art, especially for inheritance and gift tax purposes, and to stress once again the need to establish an evaluation agency as soon as possible.

7. PURCHASES OF WORKS OF ART (p. 18)

The Council feels that in general, business firms are not sufficiently well-informed of the tax advantages that can be derived from purchases of works of art, and recommends that these be specified in the Income Tax Act, in the Regulations, or in explanatory material made available to taxpayers.

8. SPECIAL INCOME TAX ALLOWANCE FOR
CAPITAL EXPENDITURES ON THE ARTS (p. 19)

The Council recommends amendment of the Income Tax Act to allow deduction from income of 150% of the amount of donations to approved capital expenditures in the arts.

9. TAXING THE INVESTMENT INCOME OF
NON-PROFIT ORGANIZATIONS (p. 21)

In view of the Government's intention to tax the investment income of such organizations, the Council recommends amendment of the Income Tax Act to grant "charitable" status to artistic and cultural institutions, thus exempting them from this new tax measure.

10. SPECIAL CASES (p. 22)

Since Tax laws have long been used to provide incentives to specific activities, the Council urges that very special attention be given to the arts and to cultural activities in general.



3 1761 11465488 2